The Business Office and the FFEL Program

CHAPTER 19

OVERVIEW OF *THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*

The Federal Family Education Loan Program (FFELP) is the collective name for a group of federal loan programs designed to provide low interest loans to help eligible students pay for postsecondary education. FFELP loans are made by banks, credit unions, and other participating lenders.

> Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to a school, and the school's "delivery" of the loan proceeds to a student. More recently, the Cash Management regulations have used the term "disbursement" to refer to the payment of FSA funds to a student or parent, including the payment of loan funds. In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, all payments to a student or borrower.

Types of FFELP Loans

The following types of loans are available through the FFELP:

Federal Subsidized Stafford Loans (**Subsidized Stafford Loans**) are made to students (undergraduate, graduate, and professional) who demonstrate financial need. Borrowers are not charged interest while they are enrolled in school at least half time and during grace periods and deferment periods. When borrowers cease to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Subsidized Stafford Loan begins and interest begins to accrue the day after the grace period ends.

Federal Unsubsidized Stafford Loans (**Unsubsidized Stafford Loans**) are made to students (undergraduate, graduate, and professional). They do not require students to demonstrate financial need. Borrowers are responsible for the interest that accrues during all periods over the life of a Unsubsidized Stafford Loan. During periods of enrollment and the grace period borrowers may choose to pay the interest, or have it capitalized. When a borrower ceases to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Unsubsidized Stafford Loan begins the day after the grace period ends.

Federal PLUS Loans (**PLUS Loans**) allow parents, and in some cases stepparents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time at a postsecondary school. Interest on a Stafford PLUS Loan begins to accrue when the first installment is disbursed. Repayment begins when the loan is fully disbursed.

A school is prohibited from paying points, premiums, payments, or additional interest of any kind to any eligible lender or other party in order to induce a lender to make loans to students at the school or to the parents of the students. In addition, lenders may not offer, directly or indirectly, points, premiums, payments, or other inducements, to any school or other party to secure applicants for FFEL loans. Similar restrictions apply to guaranty agencies. In addition, lenders and guaranty agencies are forbidden to mail unsolicited loan application forms to students enrolled in high school or college, or to their parents, unless the prospective borrower has previously received loans guaranteed by that agency.

Lenders, guaranty agencies, and other participants in the FFEL Program may assist schools in the same way that the Department assists schools under the Direct Loan Program. For example, a lender's representatives can participate in counseling sessions at a school, including initial counseling, provided that school staff are present, the sessions are controlled by the school, and the lender's counseling activities reinforce the student's right to choose a lender. A lender can also provide loan counseling for a school's students through the Web or other electronic media, and it can help a school develop, print, and distribute counseling materials.

Inducements Prohibited
Schools 34 CFR 682.212
Lenders 34 CFR 682.200
Guarantors 34 CFR 682.401(e)

Tip

You can find copies of a "Master Promissory Note" and a "Statement of Borrowers Rights and Responsibilities" in DCL L-02-232, October 2002 &
DCL GEN-02-09, October 2002

Federal Consolidation Loans (**Consolidation Loans**) allow borrowers (students or parents) to combine one or more federal education loans into one new FFELP Loan requiring only one monthly payment. There are three types of FFELP Consolidation Loans:

- Subsidized Stafford Consolidation Loans,
- Unsubsidized Stafford Consolidation Loans, and
- Stafford PLUS Consolidation Loans.

Even if a borrower consolidates his or her federal education loans from more than one category, the borrower still has only one Stafford Consolidation Loan and makes only one monthly payment.

THE PROMISSORY NOTE

To receive a FFELP Loan, a student (or parent, in the case of a PLUS loan) must complete an Application/Master Promissory Note (MPN). In the traditional paper process, the MPN will be provided by the lender, and the borrower will sign a copy for the lender (or the school if it is acting as lender). If the lender is a financial school, the student sends the MPN to the lender, either directly or through the school. The borrower gets a copy, and the school may keep a third copy on file if it chooses to do so.

Some lenders also provide the option of participating in an electronic Master Promissory Note process (e-MPN). Students (or parents, if applicable) can complete, electronically sign an e-MPN, and print a copy.

A student attending a school that participates in the e-MPN process has the option of requesting that a paper MPN be created and printed for his/her signature. If a student requests a paper MPN, the school **must** provide one.

Multi-year use of the MPN

The multi-year feature of the MPN enables student borrowers (and Parents who borrow PLUS loans) to get additional loans without having to sign a new MPN each academic year. A student has the option of asking to sign a new MPN for each new loan. If a student asks to sign a new MPN each year, the lender must honor that request.

Parents who receive Direct PLUS Loans may also use the multi-year feature. However, a PLUS MPN signed by a parent can only be used to borrow for one student. If a parent wants to borrow on behalf of more than one child, the parent must sign a separate MPN for each child. Also, when a parent with an adverse credit history receives a Direct PLUS Loan by getting an endorser, the PLUS MPN automatically becomes a single-loan promissory note, and the parent will have to sign a new MPN for any subsequent loans.

Single-year use of the MPN

A school may choose not to use the multi-year feature of the MPN. Instead, a school can elect to use the s*ingle-year feature.*

THE DISCLOSURE STATEMENT

A disclosure statement, providing loan-specific information is sent to all borrowers. A student disclosure statement can accommodate up to 20 disbursements for each type of student loan (subsidized and unsubsidized). The disclosure statement provides borrowers with information about the –

- loan types,
- anticipated loan disbursement amounts,
- loan fee rates,
- the amount of the borrower's loan fee,
- anticipated disbursement dates, and
- anticipated net disbursements.

Disclosure, cite
34 CFR 682.205

THE PLAIN LANGUAGE DISCLOSURE (PLD)

A Plain Language Disclosure supplements the Borrower's Rights and Responsibilities Statement (BRR) that accompanies an MPN. A PLD is provided to students who attend schools that use the multi-year feature of the MPN. Since students at these schools don't sign a new promissory note each year, a PLD is forwarded with each disclosure statement to remind FFELP borrowers of their rights and responsibilities.

SCHOOL RESPONSIBILITIES

A school's responsibilities in the FFELP begin with meeting and maintaining loan-program-participation requirements. Operational requirements can include –

1. establishing borrower eligibility;
2. certifying FFEL Program loans;
3. counseling students;
4. requesting FFELP cash;
5. receiving FFELP cash;
6. disbursing FFEL Program loan proceeds; and
7. carrying out administrative and fiscal management functions.

Tip

While the business office does not usually report changes in enrollment status and borrower information to ED, when it becomes aware of such changes it must provide them to the school's "Coordinating Official" as described in chapter 10, "Administrative Standards," so that the school office with the reporting responsibility can be informed.

ESTABLISHING BORROWER ELIGIBILITY

Before informing the business office that a student will be receiving a FFELP loan, your financial aid office will have confirmed a student's general eligibility for FSA funds and the student's need for a FFELP loan as described in the *Federal Student Aid Handbook*, Volume 1 – Student Eligibility, and chapter 16 of this volume.

A student must also demonstrate financial need to receive any FSA funds except unsubsidized Stafford and PLUS loans. (See the *Federal Student Aid Handbook, Volume 3 - Calculating Awards and Packaging* for more information.)

ESTABLISHING A CONFIRMATION PROCESS

Borrower confirmation

A crucial step in multi-year use of the MPN is the confirmation process that takes the place of the previous requirement that the borrower sign a new note for each academic year (in Direct Loans) or period of enrollment (in FFEL). Schools must develop and document a confirmation process to ensure that a borrower wants subsequent loans. FFEL schools must work with the lender. The confirmation process may be part of the required notices and disclosures that already exist, or it may be separate and supplement them.

A student must accept, either actively or passively (i.e., through notification), the loan amount offered.

> **Active confirmation** – a school does not disburse the loan until the borrower accepts the proposed loan type and amount or requests changes to the proposed loan package.
>
> **Passive confirmation** – school does not disburse the loan until the borrower is notified of the proposed loan package. (The notification can come from the school, lender, and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may include proposed loan amounts and types. For active confirmation, the student would be asked to accept the loan amount offered by responding to your school's offer. For passive confirmation, the student would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

Establishing a confirmation process for Stafford Loans

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process—perhaps even a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender, and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are delivered or disbursed, or at some other appropriate time. The confirmation process could cover the entire loan or, instead, could require that the student confirm each loan disbursement. DCL GEN-98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary from school to school and participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, card technologies, and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process(es) for all borrowers. However, in some cases a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

For example, if a school has a policy that requires undergraduates (but not graduate students) to participate in individual counseling sessions before they receive financial aid, it would be reasonable to use the individual counseling sessions to meet the confirmation requirement for undergraduate borrowers, and to establish a different confirmation process for graduate student borrowers.

Regardless of the process(es) used, schools (and lenders in the FFEL Program) must document their confirmation procedures. A school must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department upon request if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information and policies and procedures manuals just as they do for other school policies, such as their school refund and satisfactory academic progress policies.

CERTIFYING FFEL PROGRAM LOANS

A student (or the student's parent, if applicable) who has decided to borrow under the FFEL Program must complete a (paper or electronic) FFELP loan application and promissory note. After the borrower has completed the application and promissory note, your financial aid office will certify the loan (either on paper or electronically) and forward it to the lender selected by the borrower.

Your financial aid office certifies a FFEL Program loan by providing the following information:

1. your school's FFELP school code;
2. your school's name, address, telephone number, and contact person;
3. the borrower's identifying data and contact information;
4. the lender selected by the borrower;
5. the grade-level of the borrower;
6. the enrollment status of the borrower;
7. the date the borrower is expected to complete the program;
8. the loan period;
9. the certified loan amounts; and
10. the disbursement dates.

    Knowing borrowers disbursement dates and how they are determined are key elements in business office planning and internal controls. These factors will be discussed later in this chapter under *Processing FFELP funds.*

COUNSELING STUDENTS

A school must ensure that first-year, first-time Stafford borrowers have completed entrance counseling before the school disburses FFEL loan funds to those borrowers.

All Stafford borrowers are required to complete exit counseling when they leave school or drop below half-time enrollment.

The purpose of loan counseling is to help educate borrowers about the importance of repaying their loans and avoiding default.

Stafford borrowers can either participate in entrance and exit counseling offered at their schools, or complete a lender's or GA's online counseling.

REQUESTING FFELP FUNDS

As discussed earlier under *Certifying FFEL Program loans*, one of the data elements a school must populate is the dates it wishes the lender to provide the funds associated with the loan. We discuss the rules for requesting FFEL Program funds here so that the Business Office, by verifying that FFEL Program funds do not arrive too early, can help ensure its school is operating within the appropriate regulations.

If your school receives FFEL Program funds by EFT or master check, it may not ask a lender to provide funds earlier than –

1. for a first-year, first-time Stafford borrower, 27 days after the first day of classes of the first payment period; or
2. for any subsequent payment period for a first-year, first-time Stafford borrower, and all other Stafford borrowers, 13 days before the first day of classes.
3. for any Federal PLUS Program loan, 13 days before the first day of classes for any payment period.

If your school receives FFEL Program funds by check requiring the endorsement of the borrower, it may not ask a lender to provide funds earlier than –

1. for a first-year, first-time Stafford borrower, the first day of classes of the first payment period; or
2. for any subsequent payment period for a first-year, first-time Stafford borrower, and all other Stafford borrowers, 30 days before the first day of classes; and
3. for any Federal PLUS Program loan, 30 days before the first day of classes for any payment period.

Entrance counseling, cite
34 CFR 682.604(f)

Exit counseling, cite
34 CFR 682.604(g)

If counseling is conducted by electronic interactive means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials, and participates in and completes the counseling.

Requesting FFEL funds, cite
34 CFR .167(a)

Requesting FFEL funds by check requiring endorsement by the borrower, cite
34 CFR 668.167(a)(2)

Requesting FFEL funds by EFT or master check, cite
34 CFR 668.167(a)(1)

Requesting FFEL PLUS funds, cite
34 CFR 668.167(a)(3)

RECEIVING FFEL PROGRAM LOAN FUNDS

Federal statute requires that proceeds from Stafford Loans and PLUS Loans be disbursed by lenders directly to schools for their disbursement to borrowers. A lender that agrees to make the loan will disburse the funds to the school either through individual checks, a master check, or by electronic transfer to an account designated by the school.

Electronic Funds Transfer (EFT) and master checks

A school may receive a borrower's FFEL funds from a lender by EFT or master check. To receive funds by EFT, a school must sign up for EFT with the lender or the lender's disbursing agent to enable FFEL funds to be deposited directly into the school's designated bank account.

If the school and lender or the lender's disbursing agent have entered into an agreement to use master checks, the school may receive a borrower's loan proceeds by master check. A master check is a single check, written by a lender, that contains all the lender's FFEL Program funds for the school's borrowers for a given disbursement date.

Funds provided by EFT or master check must be accompanied by a list of names, social security numbers, and loan amounts of borrowers whose payments are included in the master check. The list enables a school to identify the individual borrowers to whom loan proceeds are to be delivered.

A school may request loan proceeds by EFT or master check no earlier than 13 days before the first day of a student's enrollment period. If a Stafford Loan borrower is subject to delayed disbursement, disbursement by EFT or master check may not be requested until the 27th day of the student's enrollment period.

A school must obtain a borrower's written authorization to receive his or her loan funds by EFT or master check. (*This EFT approval is approval for the school to accept loan funds from the lender. It is not an approval for the school to directly credit the student's bank account.*) Authorization to receive funds by ET may be given in the borrower's loan application (master promissory note [MPN] or PLUS Loan application and promissory note), or it may be obtained separately. If written authorization is not given in the borrower's loan application, it must be obtained not more than 30 days before the beginning of the enrollment period for which the loan is intended.

Individual Checks

A school may receive a borrower's Stafford Loan funds from a lender in the form of an individual bank check made payable to the borrower or co-payable to the borrower and the school. In the case of a co-payable check, the school and the borrower must endorse the check. A school must disburse loan funds to a student borrower within 30 days of the date it receives the check.

Co-payable PLUS Loan checks must be sent directly to a school by a lender. A school must disburse PLUS proceeds to a parent borrower within 30 days of receiving a check. However, a school is not required to endorse a PLUS check before sending it to a parent borrower. The school may require the parent borrower to endorse the check and return it to the school for the school's endorsement. The school then endorses the check, deposits it, and disburses the funds.

In no case may a school request loan funds by individual check earlier than 30 days before the first day of the student's enrollment period. If a Stafford Loan borrower is subject to delayed disbursement, a school may not request Stafford Loan funds earlier than the first day of classes of the student's first payment period.

DISBURSING FFELP FUNDS

Checking eligibility at the time of disbursement

Verifying eligibility, cite
34 CFR 682.604(b)

Your financial aid office certified that a student is eligible when it certified the loan. However, **you must also ensure that the student has maintained continuous eligibility before you disburse the loan**.

The change that most often makes a student ineligible for a disbursement is a reduction in enrollment status to less than half time. Therefore, it is important that your school have a system to verify a student's enrollment status at the time of disbursement.

If a student's enrollment status temporarily drops below half time, you can make disbursements of the FFEL proceeds if the student later resumes at least half-time enrollment. However, you must ensure that the student continues to qualify for the entire amount of the loan (the change in enrollment may have resulted in a significantly lower cost of attendance). The aid office must document its review of the eligibility of a student whose enrollment changes before funds are disbursed.

If a borrower has transferred from another school, you need to ensure that the student is not in default and has not and will not exceed the annual and aggregate loan maximums. You can confirm this by checking the student's loan history on the NSLDS Web site, or by reviewing the NSLDS loan history section of the ISIR, that has information that is current as of the time the ISIR was processed.

You must also submit the transfer student's name and identifiers to NSLDS through the *Inform* process, so that NSLDS can notify you of any changes in the student's loan history that might affect eligibility at your school. (See *the Federal Student Aid Handbook, Volume 2 – School Eligibility and Operations*, and *Volume 1 – Student Eligibility* for more information on the Transfer Monitoring Process, and *Volume 3 – Calculating Awards and Packaging* for more information on using the Aggregate Outstanding Principal Balance (**Agg OPB**) in NSLDS to determine if a student has exceeded the aggregate loan limits.)

Processing FFELP Funds

A school receiving funds under the reimbursement payment method may not disburse FFEL Program funds to a borrower until the Department approves a request from the school to make the disbursement to that specific borrower.

Required delay in making disbursements to first-year, first-time borrowers If a student is in the first year of an undergraduate program and is a first-time FFELP loan borrower, your school may not disburse the first installment of the FFELP loan until 30 calendar days after the student's actual attendance in the program of study begins.

Disbursement rules for terms made up of modules – Sometimes students enrolled in a modular program do not attend classes in the first module. The start date for disbursement purposes is the date classes begin for the first attended module. For example, the earliest the school can disburse FFELP funds to a first-year, first-time borrower who is scheduled to begin attendance in the second of three five-week modules that make up the payment period is 30 days after the second module begins.

Late disbursements – If the student established eligibility for payment, and you certified the loan, but the student later becomes ineligible (because the student is no longer enrolled at the school as at least a half-time student for the loan period) you may still be able to make a late disbursement to the student. Please see chapter 14 for a discussion of the conditions for and limitations on late disbursements.

Foreign study exception to 30-day Stafford delay

A loan disbursement can be made to a first-time, first-year borrower within the normal time frame (without waiting 30 days) if the borrower is attending an eligible foreign school, or if the borrower is in a study-abroad program and the home school in the U.S. had a Stafford loan default rate less than 5% (in the most recent fiscal year for which data was available) – 34 CFR 685.303(b)(4)(i)(B).

Processing loan proceeds, cite

34 CFR 682.604(c)
34 CFR 668.167(d)
34 CFR 207(d)

A late disbursement of a FFELP loan to a student who was enrolled in a series of modules may be prohibited

A school may not disburse the proceeds of a FFELP loan to an ineligible borrower. Therefore, if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of a FFELP loan before withdrawing, the school may not make the first disbursement because the school knows the student withdrew before beginning half-time attendance.

The school may not make a late disbursement because 34 CFR 668.164(g)(3)(iii), which permits a school to make a late disbursement of a FFELP loan for costs incurred to a student who did not withdraw, but ceased to be enrolled as at least a half-time student, does not apply. (The student never really began attendance in the classes needed to make the student half time.)

When a student who has received FFEL Program loan funds fails to begin attendance

If a student who received a FFELP loan withdraws or is expelled prior to the first day of classes or fails to begin attendance, the school is required to notify the lender within 30 days of the student's withdrawal, expulsion, or failure to attend school, and return to the lender –

- any loan proceeds credited by the school to the student's account; and
- the amount of payments made by the student to the school, to the extent that they do not exceed the amount of any loan proceeds disbursed by the school to the student.

The school must also notify the student or parent borrower, in writing, that the funds have been returned.

Number of FFELP disbursements: standard terms and substantially equal nonstandard terms

If the program uses *standard academic terms* (for example, semester, trimester, or quarter) or it has *nonstandard terms of substantially equal length*, at least one disbursement must be made for each term in the loan period. A program is considered to have substantially equal terms if no term in the loan period is more than two calendar weeks longer than any other term in the loan period.

- *If there is more than one term in the loan period,* the loan must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal disbursements.
- *If there is only one term in the loan period,* the loan must be disbursed in equal amounts at the beginning of the term and at the term's calendar midpoint.

When a student fails to begin attendance, cite
34 CFR 682.604(d)(4)

A school may not disburse the proceeds of an FFEL or Direct Loan to an ineligible borrower. Therefore, if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of an education loan before withdrawing, the school may not make the first disbursement because the school knows the student was never enrolled on at least a half-time basis.

Multiple disbursements requirement and exceptions
There are two significant exceptions to the multiple disbursement requirement:

1. If any payment period has elapsed before you make a disbursement, you may make a single disbursement for all completed payment periods.

   If a loan is not disbursed by payment periods i.e., terms, and the student has reached the calendar midpoint, and successfully completed one-half the hours in the loan period, you may make a single disbursement.

2. You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period, if your school's most recently calculated Stafford loan default rate is less than 5% for the single most recent fiscal year for which data is available.

If one or more scheduled disbursements have elapsed before a lender makes a disbursement, and the borrower is still enrolled, the lender may include in the disbursement and the school may disburse the loan proceeds for previously scheduled but unmade disbursements.

Number of FFELP disbursements: 1) credit-hour programs without terms, 2) credit-hour programs with non-standard terms that are not substantially equal in length, and 3) clock-hour programs

If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year. For each loan period in these programs –

- The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- The second half of the loan proceeds may not be disbursed until the later of either
    a. the calendar midpoint between the first and last scheduled days of class of the loan period, or
    b. the date the student successfully completes half the clock hours in the loan period or, for credit hours, completes half the credit hours. In programs where the student cannot earn the credit hours until the end of the loan period, the school must determine when the student has completed half the coursework for the loan period.

Time frame to disburse FFELP loan funds or return them

The Cash Management regulations establish specific time frames for schools to disburse FFEL Program funds or promptly return the funds to the lender.

For purposes of this discussion, returning funds *promptly* means that a school may not delay its normal process for returning FFEL Program funds to lenders. Also for these purposes, the requirement that a school *return funds no later than* a certain number of days means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business on the last day of that period.

Schools are required to *return funds no later than ten business days* after the school determines the student to be ineligible for FFEL Program funds. This means a school must return a check or initiate an EFT of FFEL funds to the lender by the close of business of the last day of the return period.

Multiple disbursements within a payment period
You can schedule more than two disbursements within a loan period, as long as the disbursements are substantially equal installments.

If a loan is not disbursed by payment periods, no more than one-half the loan proceeds may be disbursed before the student reaches the calendar midpoint, and successfully completes one-half the hours in the loan period.

Schools that use payment periods as the basis for their return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period for use in a Return calculation.

Time frame to disburse or return funds, cite
34 CFR 668.167

Reasons a school might have to return FFEL funds to a lender
- The student failed to enroll for an enrollment period for which the loan was intended.
- The student failed to meet satisfactory academic progress or other eligibility requirements (for example, completing entrance loan counseling) at the time the loan was due to be delivered.
- The student withdrew during a period for which the loan was intended before the funds were delivered to a student, and the student is not eligible for a postwithdrawal disbursement.
- A return of funds is due to a lender as a result of a return of Title IV funds calculation.
- A student or parent requests a school to return FFEL Program funds to reduce the borrower's principal loan balance.

Verification extension
If a school chooses to certify or originate a Stafford Loan for a student who was selected for verification, the verification regulations allow the school to hold the loan proceeds for 45 days. If the applicant does not complete the verification process within the 45-day period, the school must return the loan funds to the lender.

If the student's eligibility was reduced as a result of verification, the school may disburse the full proceeds received if the excess amount can be eliminated by reducing subsequent disbursements for the applicable loan period. (The school must advise the lender to reduce the subsequent disbursements.) If the excess funds cannot be eliminated in subsequent disbursements for the applicable loan period, the school must return the excess funds to the lender.

In some cases, a school may receive the loan funds at a point when the student is **temporarily** not eligible for payment—for instance, if the student needs to complete the clock hours or credit hours in the previous payment period (for an academic program without terms).

A school may delay returning funds for 10 days after the date the funds would normally be required to be disbursed (three or 30 days as discussed above) **only if the school has reason to believe the student can reestablish eligibility during this 10-day period**.

A school may delay the return for 10 days **only** –

1. if the school determines that the student has not completed but will complete, the required number of clock hours or credit hours in the preceding payment period within those ten-business days; or
2. if the student has not met all of the FFEL eligibility requirements (such as registering for the required number of hours, completing entrance loan counseling, or making satisfactory academic progress), but the school expects the student to meet those requirements during this ten-business-day period.

If the student does not reestablish eligibility, the school has another 10 days to return the funds to the lender.

If during this second 10-day period the student establishes eligibility and the school has not yet returned the funds, it may disburse them to the student.

ADMINISTRATIVE AND FISCAL MANAGEMENT FUNCTIONS

Enrollment Reporting with NSLDS and the Roster file

Schools must sign up to receive Roster Files through

https://www.fsawebenroll.ed.gov/PMEnroll/index.jsp

Enrollment Reporting Requirements
34 CFR 682.610 FFEL
DCL GEN 96-5
DCL GEN 96-17

All schools participating (or approved to participate) in the FSA programs **must** have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important, because it is used to determine if the student is in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to your school (or its designated servicer) through its SAIG mailbox. The file includes all of the school's students who are identified in NSLDS as Stafford (Direct and FFEL) borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at your school—you also must report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the Roster file within 30 days of receiving it. You may also go to **www.nsldsfap.ed.gov** and update information for your students online. You're required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date.

If the Roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive a response file with the records that didn't pass. Within 10 days, you'll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

If your school reports enrollment data to the NSLDS, it does not have to complete SSCRs received directly from guaranty agencies. (Receiving an SSCR report from a guaranty agency may be an indication that your school has not reported to NSLDS within the last six months.) However, you must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. You must continue to provide loan holders and loan servicers with a borrower's enrollment status and other information needed to locate the borrower for deferment and other repayment purposes.

Providing borrower information at separation

Within 60 days after the exit counseling session, your school must provide the guaranty agency that was listed in the borrower's student aid records with updated information about: the borrower's name; address; references; future permanent address; Social Security Number; the identity and address of the borrower's expected employer, the address of the borrower's next of kin, and the borrower's driver's license number and state of issuance.

Updating enrollment information on the Web

You can create or update student enrollment status by using the "Enroll" tab on the NSLDS Web site for aid professionals:

https://www.nsldsfap.ed.gov/

Support: **1-800-999-8219**

Enrollment Reporting/SSCR Technical References

For more information on reporting enrollment information to NSLDS, including record layouts, error codes, etc., see the **Enrollment Reporting Guide** (formerly the SSCR User's Guide), which is available online on the **ifap.ed.gov** site (listed alphabetically under "Current Publications by Title").

If you will be using the SSCR software package for Enrollment Reporting, see the **SSCR Technical Reference,** which includes record layouts, error codes, etc., and is available in Word and PDF formats at:
www.fsadownload.ed.gov

Privacy: Sharing Student Records with Lenders

A student authorizes his or her school to release information to lenders by signing the promissory note as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow as well as locating the borrower. Examples of such information are enrollment status, financial assistance, and employment records.

Loan information from the guarantor

Upon request, the guarantor must inform the school of students in default on FFELs.
34 CFR 682.401(b)(24)

If the lender requests preclaims assistance, the guarantor must inform the school of this request, if the school has requested such notification.
34 CFR 682.404(a)(4)
Section 428(c)(2)(H) of the HEA

The guarantor must notify the school when a loan made at that school changes hands, if the school requests such information.
Section 428(b)(2)(F) of the HEA
34 CFR 682.401(b)(25)

Other notifications to lenders and guarantors

Unless it expects to report student enrollment data to NSLDS within the next 60 days, your school must notify the lender/GA within 30 days if it discovers that a –

- Stafford or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled at least half time;
- Stafford or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended;
- has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or
- student who is enrolled and who has received a Stafford loan has changed his or her permanent address.

LOAN CONCEPTS FOR THE BUSINESS OFFICE

Capitalizing interest

Capitalizing interest is adding unpaid, accrued (accumulated) interest to the principal balance of a loan (that is, to the total amount borrowed). During certain periods, borrowers can pay interest on an ongoing basis or allow interest to accrue and capitalize. For example, a Unsubsidized Stafford Loan borrower can either pay the interest while he or she is in school or allow the interest to accrue and be capitalized.

Prepayment

A prepayment occurs when a borrower –

- pays all or part of a loan before a payment is due, or
- pays an amount in addition to the amount required for a monthly payment on the loan.

FFELP borrowers can prepay at any time without penalty, that is, without paying an additional charge. If a prepayment amount is less than the monthly payment the borrower owes, the lender applies the prepayment first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal.

When a borrower makes a prepayment that equals or is more than the monthly repayment installment amount, the lender/GA –

- applies the prepaid amount first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal;
- advances the due date of the next payment, unless the borrower requests otherwise; and
- notifies the borrower of any revised due date for the next payment.

Grace Period

The grace period is the six-month period before a loan enters repayment. The grace period starts the day after a borrower ceases to be enrolled at least half-time at an eligible school. It ends six months later, on the day before the loan repayment period starts.

During the grace period, Subsidized Stafford Loan borrowers are not required to make payments on the loan principal and are not charged interest. Unsubsidized Stafford Loan borrowers are not required to make payments on the loan principal, but they are responsible for the interest that accrues.

If a student returns to school at least half time before the grace period ends, the student may again postpone loan repayment while in school, and the student will be entitled to a full six-month grace period after terminating enrollment or after dropping below half-time status.

Deferments

Deferment refers to periods during which payments of principal on FFELP loans are postponed. No interest is charged to borrowers on Subsidized Stafford Loans during periods of deferment. However, interest accrues and is charged to borrowers of Unsubsidized Stafford Loans. Unsubsidized Stafford loan borrowers may choose either to pay the interest or to have it capitalized (added to their loan principal).

To receive a deferment, borrowers must request (and be granted) deferments by the lender/GA. Borrowers must meet specific eligibility requirements in order to receive a deferment.

Repayment

The loan repayment period for Subsidized Stafford Loans and Unsubsidized Stafford Loans begins the day after the grace period ends. This is when borrowers begin repaying their loans (unless they enter a deferment period or forbearance period).

Discharge

Under certain conditions, all or a portion of a borrower's loan debt may be cancelled or discharged. Examples of conditions for which discharge may be granted include:

- borrower death or total and permanent disability,
- borrower bankruptcy,
- a closed school,
- a school falsely certifying a loan, and
- a school failing to refund loan proceeds.

Forbearance

Forbearance refers to periods in which borrowers are allowed to –

- stop making payments temporarily,
- extend the time for making payments, or
- temporarily make smaller payments than previously scheduled.

Borrower.

An individual to whom a FFEL Program loan is made.

Co-Maker

One of two married individuals who jointly borrow a Consolidation loan, each of whom are eligible and who are jointly and severally liable for repayment of the loan. The term comaker also includes one of two parents who are joint borrowers as previously authorized in the PLUS Program.

Default

The failure of a borrower and endorser, if any, to make an installment payment when due, or to meet other terms of the promissory note, if the Department finds it reasonable to conclude that the borrower and endorser, if any, no longer intend to honor the obligation to repay, provided that this failure persists for 270 days.

Endorser

An individual who signs a promissory note and agrees to repay the loan in the event that the borrower does not.

Foreign school

A school not located in a state.

Holder

The owner of the loan. In the Direct Loan Program, the holder is ED. In the FFEL Program, the holder may be an eligible lender a federal or state agency, or an organization or corporation acting on behalf of such an agency.

National credit bureau

A credit bureau with a service area that encompasses more than a single region of the country.

Period of enrollment

The period for which a FSA loan is intended. The period of enrollment must coincide with an academic period established by the school for which institutional charges are generally assessed (e.g., semester, trimester, quarter, length of the student's program or academic year). The period of enrollment is also referred to as the loan period.

Guaranty agency

A State or private nonprofit organization that has an agreement with the Department under which it will administer a loan guarantee program.

Origination fee

A fee paid by a borrower to help defray the cost of making a loan.

School lender

A school, other than a correspondence school, that has entered into a contract of guarantee with the Department or, a similar agreement with a guaranty agency.

State lender

In any State, a single State agency or private nonprofit agency designated by the State that has entered into a contract of guarantee with the Department or a similar agreement with a guaranty agency.